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TAGS: [EFIN](#) [ECON](#) [RS](#)
SUBJECT: RUSSIA: UPDATE ON PRICEWATERHOUSECOOPERS

REF: A. MOSCOW 664

[1](#)B. MOSCOW 1584

Classified By: Acting DCM Quanrud, Reasons 1.4 (b/d).

Summary

[1](#)1. (C) PricewaterhouseCoopers is still awaiting a response from the Supreme Arbitration Court on whether it will hear the company's appeal on the expatriate salary issue, PWC's Senior Managing Partner for Russia Peter Gerendasi told us April 26th. PWC continues to cooperate with the Interior Ministry's criminal investigation; to date, no criminal charges against any PWC official has been filed. On the separate case of PWC's audits of Yukos, the Finance Ministry has stepped up its review of standard operating audit procedures, including that of PWC. Consistent with what we heard from Finance Minister Kudrin, Ministry officials indicated to Gerendasi that PWC's license to operate would be extended (PWC's license was subsequently extended by five years). End Summary.

Expatriate Salary Case

[1](#)2. (C) Gerendasi told Acting DCM in a April 26th meeting that The Supreme Arbitration Court has not yet responded to PWC's February 16 request for a hearing on the case in which the Federal Arbitration Court ruled PWC had improperly accounted for its expatriate employees' salaries in 2002. (See Reftel A.) In fact, the ruling was now overdue. Gerendasi said that PWC continues to cooperate with the Interior Ministry's ongoing criminal investigation related to this case by agreeing to interviews, submitting documents, and giving clients' depositions as needed. To date, no charges have been filed. Gerendasi reported that tax authorities have closed their audits of the PWC's expatriate salary accounting practices for 2003-2005.

Yukos Audits Case

[1](#)3. (C) Gerendasi said that during a recent meeting at the Finance Ministry, Deputy Finance Minister Sergey Shatalov had requested a detailed explanation of the firm's standard operating procedures and methodologies for conducting audits. (Note: This request might be part of the Ministry's review

of the Federal Arbitration Court (FAC) case that ruled on March 20 that the auditing contracts for 2002-2004 between former oil giant Yukos and PWC were allegedly unlawful. Finance Minister Aleksey Kudrin mentioned this review during his March 27 meeting with the Ambassador. See reftel B.)

¶4. (C) Gerendasi reported that Shatalov indicated to him at the same meeting that the Finance Ministry would approve PWC's application to renew its auditing license. (Note: The Finance Ministry did extend PWC's license for another five years. End Note.) Gerendasi noted that PWC was finalizing documents related to its appeal of the FAC's March 20 decision in the Yukos case. He said PWC was considering providing a courtesy copy of the brief to Shatalov when the documents are filed.

Request from Prosecutor General

¶5. (C) The Prosecutor General's office filed a request with PWC's Moscow office to interview Doug Miller (Amcit) of PWC on a matter not related to either the Yukos audits or the expatriate salary case. Gerendasi noted Miller was not in Russia but that PWC would be interested in demonstrating the firm's ongoing willingness to cooperate with authorities. He did not know what Miller would decide.

Comment

¶6. (C) On the issue of criminal charges, we maintain our outlook that the slower the case develops the better -- so the fact that this has dragged out three months already is probably good news. We suspect that the Supreme Arbitration Court's decision on whether to hear the appeal of the expatriate salary case will play a decisive role in the

longevity of the Interior Ministry's criminal investigation on the issue. In light of the generally favorable views that the Finance Ministry appears to have regarding PWC, and the Finance Ministry's extension of PWC's license, we don't believe there is cause for concern regarding the firm's status as an auditor. We will continue to monitor developments relating to the Prosecutor General's request to speak with members of PWC's management.

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